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ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

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OCT 31 2014

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IN THE MATTER OF THE APPLICATION) DOCKET NO. E-04204A-13-0447
OF UNS ELECTRIC, INC. AND UNS GAS, INC.) NO. G-04204A-13-0447
FOR A FINANCING ORDER AUTHORIZING)
VARIOUS FINANCING TRANSACTIONS)

**JOINT RESPONSE TO
PROCEDURAL ORDER**

UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS Gas") (together the "Companies") and Arizona Corporation Commission Utilities Division Staff ("Staff"), submit their joint response to the questions posed in the October 14, 2014 procedural order in this docket.

A. Questions regarding Proposed Ordering Paragraph # 10.

1. Please provide an explanation about the appropriateness of the modification of the condition to conditioning borrowing upon compliance with credit agreement covenants in lieu of a 40 percent equity ratio.

This condition addresses borrowing under revolving credit arrangements. The nature of the borrowing suggests that a more flexible approach be used to determine if a specific borrowing is appropriate.

2. Should the order authorizing the new revolving credit facility specifically contain a condition addressing a minimum equity ratio (e.g. 35 percent)? If not, why not?

1 The Companies and Staff have discussed this issue. As a result of the discussions, they have
2 agreed to a modification of Proposed Ordering Paragraph # 2 that addresses the issue:

- 3
- 4 2. Authorizing UNS Electric and UNS Gas to enter into one or more credit
5 agreements with terms of up to five years, and to enter into agreements to
6 refinance any such credit or reimbursement agreements with new terms of
7 up to five years, which may consist of one or more revolving credit
8 facilities provided that: (i) after giving effect to the entry of such a
9 facility, the amount of credit available under such facilities to each
10 company, individually, does not exceed \$100 million; (ii) any borrowing
11 under the credit agreement(s) authorized herein shall be conditioned upon
12 the borrowing entity being in full compliance with the covenants
13 contained in such agreement(s); and (iii) such facilities contain a debt to
14 capitalization limit that is substantially the same as the 65% limit
15 contained in the existing credit facilities between UNS Electric or UNS
16 Gas and their lenders.

17

18 This paragraph now effectively incorporates an equity ratio in the future credit facilities. As
19 a result of this modification, Proposed Ordering Paragraph # 10 is no longer necessary. Moreover,
20 revolving credit facilities are intended to provide immediate liquidity that is important to the
21 financial and operational stability of the Companies in performing their public service obligations.
22 The amount of these facilities will be limited through the Commission's order. The modified
23 paragraph does not have the impact of adding undue additional constraints on individual borrowings
24 under these facilities that may have the unfortunate consequence of prohibiting access to liquidity
25 when such access is most critical to the continued performance of the Companies public service
26 obligations. For example, if additional tests beyond the terms of the credit facilities were to be
27 added for each borrowing under the credit facility, then the validity of each loan request may be

1 subject to question by the lending banks. Such a situation could require the borrowing Company to
2 provide detailed financial ratio calculations, possibly in conjunction with a supporting legal opinion,
3 each time a borrowing request is made.

4 Finally, the reporting requirement in Proposed Ordering Paragraph #15 should give the
5 Commission comfort that the Companies will not financially over-extend themselves through their
6 use of revolving credit facilities.

7
8 **B. Questions regarding Proposed Ordering Paragraph # 20.**

9
10 **1. Will the parties please clarify whether proposed Ordering Paragraph # 20 is intended**
11 **to replace Staff's recommendation # 8; verify that the "such" underlined above refers**
12 **to the authorization contained in Decision No. 71917; and check if there is a word(s)**
13 **missing in the first or second lines?**

14 First, Ordering Paragraph #20 is intended to replace Staff's recommendation #8.

15 Second, the words "such authorization" is intended to refer to the financing authority granted
16 in Decision No. 71917.

17 Third, regarding the specific language used in the first and second lines, replacing the first
18 comma with the words "and to" would provide greater clarity.

19
20 **2. As, proposed, it could be argued that the two parts of proposed Ordering Paragraph #**
21 **20 negate each other. Do the parties believe that the proposed language is not**
22 **ambiguous and accomplishes the stated goal of allowing access to the existing credit**
23 **facility until there is a new credit agreement?**

24 The parties believe that the proposed language accomplishes the goal of allowing continued
25 borrowings under the existing credit facility in reliance upon the authorization granted in Decision
26 71917 until there is a new credit agreement, but acknowledge and agree that it would be beneficial to
27 make this intent as clear as possible.

1
2 **3. Should the exception be limited to the revolving line of credit facilities?**

3 It would be acceptable and appropriate to limit the exception to the revolving line of credit
4 facilities.


5
6 **4. Would it be more clear or would it be problematic if the last portion of the provision**
7 **were to read "except that UNS Electric, Inc. and UNS Gas, Inc. may continue to utilize**
8 **their existing authorized agreements for revolving credit facilities until the earlier of the**
9 **execution of the new credit facility authorized herein or the expiration of the existing**
10 **credit facility"?**

11 Yes, it would be more clear if the last portion of the provision were changed as described above.

12
13 RESPECTFULLY SUBMITTED this 31st day of October, 2014.

14
15 UNS ELECTRIC, INC.
16 UNS GAS, INC.

17
18
19 By



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Original and 13 copies of the foregoing
filed this 31st day of October, 2014, with:

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Copy of the foregoing hand-delivered/mailed
this 31st day of October, 2014, to:

Jane Rodda, Administrative Law Judge
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By

